

BOOK REVIEW

GOVERNMENT FAILURE, ALWAYS A TOPICAL MATTER

Simona Buşoi*

Academy of Economic Studies, Bucharest, Romania

Government Failure. A Primer in Public Choice is a book that represents a much needed lesson about the connection between economics and politics. Written by Gordon Tullock, Arthur Seldon and Gordon L. Brady, it was published in 2005 at the Cato Institute, Washington, DC. It offers, according to the authors, a realistic view on these connections for, as Arthur Seldon says in the introduction, political analysts and politicians have been wrong long enough, and economists have delayed applying economics to politics for too long. Abraham Lincoln's idea that governing people is done by the people and for the people is utopian especially now, during the last decades of the 20th century and the beginning of this century, although the definition of democracy in the encyclopedia is still that of Lincoln, the government is made by and for some people, not ordinary people, but well organized and financed interest groups. As Arthur Seldon shows, it is government of the Busy (political activists) through the Bossy (government managers) for the Bully (lobby-ing activists). Thus, the authors highlight a tricky question: How well or how poorly can and will 100 or 500 elected representatives satisfy the widely differing choices of millions of people? Gordon Tullock, Arthur Seldon and Gordon L. Brady wonder if in the years to come governments will continue to impose laws, rules and regulations despite the growing popular desire that the economy to operate in accordance with the laws of free trade. For, in the opinion of the three professors, government interventions do more harm than good.



The book, especially its theoretical part, uses a solid bibliography that includes works of Nobel prize winners in Economics: Kenneth Joseph Arrow, Friedrich August Hayek, Milton Friedman, James M. Buchanan, and of other leading economists such as Anthony Downs, Thomas Hobbes, Anne Krueger, Mancur Olson, Joseph Schumpeter and others, which recommends it, together with the reputation of the authors, as a quality scientific reading like those usually published by the Cato Institute. Its applicative part, explaining actual situations from the American or British everyday life makes it an interesting read and the principles and phenomena are easier to understand.

* Author's contact: e-mail: simona.busoi@ase.ro

The book, written after extensive discussions between its authors, is divided into three parts. In the first part, Professor Gordon Tullock, one of the initiators of this theory, along with James M. Buchanan, presents, over seven chapters, a number of items that he considers crucial for inducting less knowledgeable readers in this economic approach to governing. In the second Part, Gordon L. Brady applies the principles stated by Gordon Tullock to the American realities. And in the third Part, Arthur Seldon addresses the issues from a British point of view.

In the first part of the book, entitled *The Theory of Public Choice*, in Chapter 1, *People are People. The Elements of Public Choice*, Gordon Tullock shows that people have the same behaviour patterns and are motivated by the same self interest when they are making private choices or public choices, and the differences that occur in their behaviour in the two situations are more likely determined by the fact that the constraints are different. On private markets the choices the individual makes affects only himself, while if the voter or the politician makes choices on a political market, these choices affect other people.

In this introduction to public choice theory, Gordon Tullock aims to show what this theory brings new in understanding the democratic process, how it differs from the rest of the discourse on social phenomena where the approach used to be and still is mainly of moral nature.

The author shows that, starting with Plato and Aristotle, political science has been perceived as a way to produce morally correct policies. Until David Hume and Adam Smith, individuals, whether they were businessmen, civil servants, politicians or monarchs, were told what was right to do from the moral point of view. According to Gordon Tullock it was assumed that all these people were (perhaps they were) concerned with maximizing the public interest. Machiavelli and Hobbes made exceptions, but their writings were considered immoral and not contributions to a scientific system which was essentially amoral. According to Tullock, David Hume showed, however that most people pursued their own interests rather than public interest, and Adam Smith founded modern economics on the assumption that individuals were generally motivated by self interest and explaining the consequences of this in the economy.

However, in the nineteenth century and twentieth century, the dual vision of human behavior has been maintained – economists assumed that individuals are primarily concerned with self-interest and have investigated the consequences of this fact. And political analysts in the same period, continued to assume that political actors were motivated in their actions by the public interest.

However, public choice theory removes this type of bifurcated view on human behavior, because people do not change, they are the same, whether they make decisions on the market of goods and services, or they are in a position to make decisions as voters or politicians.

Gordon Tullock shows that although the dual view of human behavior in the two cases is maintained and is still prevalent, from the empirical point of view most people realize that politicians behave in a way which shows that they are motivated by self-interest. And similarly, analyzing the factors that determine the vote, most people admit that the personal gain is not an insignificant issue.

The author also analyses how well informed are the individuals in the two situations - when they make private decisions on the market of goods and services and when they participate to the decisions on the political market.

On the private market, the citizens will allocate time and money to be as informed as they can be, because they are aware that an error will directly affect them. But when they vote, they believe it is unlikely their individual vote to affect the final outcome of the vote. The low valuation that they place on their vote makes individuals not invest too much to collect information. And if the designers of automobiles, for example, are aware that a buyer will be well informed when purchasing a product of their own, the politicians also know the degree of information of the citizens on political issues and, therefore, they create laws that will attract the not so well informed voters.

In contrast to the low general political information, certain interest groups are very familiar with regulations that directly affect them - the farmers will know a lot about agricultural subsidies, producers will know all about import restrictions on competing products etc. From this contrast appears, as Gordon Tullock shows, the presence of the special interest groups on the political market and, what is most important, the attention given by politicians to these groups.

Gordon Tullock continues to discuss this and other problems resulting from even his reasoning: Is a democratic government preferable or a nondemocratic one? Do we leave everything to the market or is the democratic government, with its inherent minuses, still necessary? What are the costs and benefits of government?

Returning to the central and perhaps most exciting issue - the acceptance that governments mainly pursue their own interest - the author shows that the interests of the citizens and of the stakeholders of the companies will be more likely reached if it is in the interest of the politicians for that to happen. Of course, the altruistic and compassionate natural human inclinations are not denied. However, according to Gordon Tullock, reality shows quite strongly that the prosecution for reasons other than self-interest does not seem to lead to achieving long-term performance.

Issues such as market imperfections and government imperfections are also addressed. Imperfections of the market processes do not necessarily require government intervention, says the author. And government activities can also be undoubtedly improved.

Another matter studied by public choice theory is the design of government and there are two issues here. One aspect is that of considering in a serious and scientific way the market alternatives to government. And the second area is related to determining the optimal size of government units, taking into account a much higher degree of decentralization. The development of techniques that make it possible, at least in theory, to determine what an optimal government unit is has contributed greatly to this new view. The idea that we can adjust sizes of government so it fits our needs has led to another element - local government, referring to small communities.

Regarding the behavior of government officials, given the low level of political information of the governed, according to the public choice theory, on the political market the deception to voters, manipulation techniques we say, is more likely to be a worthwhile tactic than it is in the marketplace.

In the following chapters that make up the first part of the book issues such as voting paradoxes (Chapter 2, *Voting paradoxes*), making mentions of the Roman Republic, the British electoral system and the forms of government in some other English-speaking countries, the median preference theorem for voting, coalitions and moral principles, logrolling (Chapter 3, *Logrolling*), with its advantages and disadvantages, and its moral aspects, without forgetting, of course, the lobby, with benefits concentrated on small groups of interests and high costs, but diffuse, distributed to the population are discussed, in more detail, from a theoretical point of view,.

A special chapter, Chapter 4, *The cost of rent-seeking*, is dedicated to the costs of the rent-seeking activities - a brief history of the phenomenon, and the negative direct and indirect effects of these activities.

Chapter 5, *Bureaucracy*, is obviously dedicated to the bureaucracy, American and British bureaucracy, discussing bureaucratic interests, government bureaucracy, but also private bureaucracy, the relationship between bureaucrats and politicians, as well as those between bureaucrats and lobbyists.

Chapter 6, *Tax "Avoision"*, refers to tax avoidance and tax evasion. For the two phenomena Arthur Seldon invented a new word in English: "avoision" that includes them both.

Chapter 7, called *Federalism*, refers to the federal systems. Issues such great variety of preferences that voters may have in a country, especially in a large country like the U.S., the degrees of decentralization and purely local decisions are uncorked.

A phenomenon brought into discussion about the federal states is that of "voting with the feet". Because residents can choose where to live or where to develop their businesses, local governments are in competition with each other. With this option, individuals can influence government activity by voting in that area. In this way they start by choosing a place that they like and then they try to make the place even more enjoyable through their vote. As an example, Gordon Tullock refers to East Germany that has been threatened with depopulation due to "voting with the feet", which is why the communist authorities have built the Berlin Wall.

In the second part of the book, called *American Applications*, Gordon L. Brady highlights some aspects of American reality that support the understanding of the public choice theory.

A first issue, the protectionism, brings to the fore in Chapter 8, *Protection in international trade*, practices as logrolling and rent-seeking with their long-term negative economic implications.

Protectionism may occur largely because producers, few in number compared with the mass of consumers, are much better organized. Import restriction measures that support domestic producers, Gordon L. Brady shows, are detrimental to consumers whose interest is to buy goods at the lowest possible price. And the protectionist practices that restrict free trade are argued in such a manner so that even citizens who are affected by them consider that these measures are beneficial. Thus, governments that use various forms of protectionism (in fact all governments do so) justify by the fact that they protect domestic strategic industries from foreign competition, strengthen the young industries, create economic growth, protect jobs, etc.

Public choice theory offers two explanations for the supply and demand for such protective measures:

- logrolling, exchange of votes among politicians in the legislative assemblies;
- rent-seeking practices involving lobby for obtaining governmental favors.

In relation to international trade regulation - the logrolling process, often considered beneficial by economists, can have harmful effects. For example, the author says, politicians can make an exchange of votes for measures meant to protect regional industries - a textile industry in California or a Louisiana sugar producers will be protected as a result of such an arrangement because small and well organized groups are often successful even when cost-benefit calculations do not justify such measures of protection.

Logrolling, according to the public choice theory, allows elected representatives to express their preference intensity. Thus, politicians who want to obtain a success related to animal protection can exchange votes for other issues they are not so interested in. However, given the fact that most of the legislative assemblies are formed based on geographical representation, politicians will follow their own interests, namely to represent the interests of the citizens in the region of origin in order to be reelected. Among these interests of local, regional nature, are often measures to protect individual industries (along with many other issues that may arise). In these cases logrolling at national scale can be inefficient because politicians change votes in favor of local interests against issues with national implications.

Another problem addressed by Gordon L. Brady in Chapter 9, *Internet Governance*, is the regulation of the Internet. He examines Internet governance from the perspective of public choice theory, given the role of lobbyists, politicians and bureaucrats in their attempt to control the general revenue, and the institutions that will influence its further development.

Seen through the lens of public choice, those governing the usage of Internet are not motivated by consumer welfare, by the efficiency generated by the competition or by the economic surplus created by technological innovation, but rather, indicates the author, government intervention on the Internet could be explained by interactions of bureaucrats with various interest groups.

For example, the granting of domains .org or .com, for non-profit or commercial organizations. People may have, the author shows, a greater tendency to buy products and services from an entity with an Internet domain .org, than one with a domain .com, which may lead entrepreneurs to invest resources to obtain such .org domains. For this reason those who give these Internet domains can use price discrimination and bribery.

The Internet, shows Gordon L. Brady, is under the siege of those who wish to use regulations from the United States (through the Federal Communications Commission) and international (Internet Corporation for Assigned Names and Numbers, World Intellectual Property Organisation) which encourage rent-seeking activities. These regulations can slow down and even discourage the development of the Internet.

Another area in which Gordon L. Brady applies public choice theory is that of telecommunications in the United States. In Chapter 10, *Applying public choice to telecommunications*, rent-seeking analysis is used to examine the prospects for liberalization of telecommunications. Specific regulations in the United States, but a lot of

other elements that enhance international competition are considered. Removing the barriers imposed by regulations represents a way to stimulate innovation and improve resource allocation in the telecommunications industry and the author refers to both the U.S. and the international such industry. Public choice theory contributes to understanding the phenomena, bringing to light such rent-seeking obstacles in the way of the market liberalization.

The last chapter of this second part, chapter 11, *Applying public choice theory to environmental policy*, is dedicated, as the title says, to the problems of the environment and to the way in which the government deals with them. Clean Air Act regulations are explained, how they have occurred and why it is difficult have them changed. Environmental policy, the author shows, is the result of interactions between scientists, politicians, environmentalists, bureaucrats and interest groups, taking into account economic, social, legal and political issues.

In the third part, called ***Public choice in Britain***, Arthur Seldon, (Chapters 12-18 – *Public choice or political sovereignty?*, *Government intentions and consequences*, *Overdependence on the welfare state*, *The weakening of the family*, *Voters versus consumers*, *The political fate of economic federalism*) examines in terms of public choice theory issues concerning British social welfare and services related thereto. The analysis aims to explain the fact that decisions on social welfare in the United Kingdom are collective and not individual. The excuses used for the transfer of these services from the public area to the private area were mixed: on education, healthcare and pension they have a very slow development and provide services to too few people. It has been said that only the government can accelerate their development and provide to the citizens these services more widely. The author supports his claims with arguments and examples. In 1870, he tells us, entered into force the Education Act (Education Act) which introduced free public education although until 1860 and even before three of four children belonging to the working class had gone to schools belonging to the private education and had paid tuition fees with the help of the church and charitable organizations.

British social welfare services brought into discussion by Arthur Seldon in this part of the book are education, healthcare, housing provision for people with low incomes, income insurance against disruptions in sickness, unemployment and retirement, and protection for everyday risks.

He points out that the politicized public institutions are not primarily concerned with the options of the public as individuals and families. This is explained by the fact that collective decisions are taken by representatives of the public and not the public itself, which leads to public goods and services very different from what the citizens would choose if they participated directly in decision making. The idea that the author emphasizes is that the welfare state, created to help people most in need, has done much worse.

The work, in its assembly, raises the interest of the readers through the topical issues and concrete examples of American and British reality, that are similar, in many ways, to situations from the political, economic and social market in our country. We invite you to reading and reflection.

About the authors¹



Gordon Tullock received his J.D. in 1947 and an honorary Ph.D. in 1994 from the University of Chicago. He is a Distinguished Fellow of the American Economic Association from 1998. He contributed to the development of public choice theory. Tullock's hypotheses, the laws of Tullock and Tullock's paradoxes have shaped the development of public choice theory, and opened new areas of research in law, economics and sociobiology. Since its first publication in the *Journal of Political Economy* and *American Economic Review*, Tullock has published more than 160 articles, 130 communications and 20 books.

The Calculus of Consent: Logical Foundations of Constitutional Democracy (1962), written with James M. Buchanan, is one of the classic works that founded the theory of public choice. In 1967 he described in one of his works a series of concepts that have come to be known as rent-seeking. He held the posts of President of the Southern Economic Association, the Western Economic Association and the Public Choice Society. In 1996 he was elected to the American Political Science Review Hall of Fame. Tullock is currently a professor of law and economics at George Mason University School of Law, Arlington, Virginia.



Arthur Seldon studied at Raine's Foundation School and the London School of Economics, where he graduated with a diploma for outstanding achievements. He worked as a university teacher, tutor and examiner in economics, an economist in industry, special adviser in a committee on the welfare of the Commonwealth, Australia. He was a member of a board of experts in health services financing of the British Medical Association. He was editorial director at the Institute of Economic Affairs (1957-1988), whose founding president was, along with Ralph Harris. His scientific writings include 230 essays in 74 newspapers and periodicals and 28 papers and books.

Gordon L. Brady received his Ph.D. from the Virginia Polytechnic Institute and State University (1976) and master in the study of law from the Yale Law School (1970). Author of more than 70 publications, he wrote a biography of Duncan Black and a history of Thomas Jefferson Center for Studies in Political Economy. He was an Associate Fellow at the Royal Institute of International Affairs in London and he is a senior research associate at the Center for the Study of Public Choice, George Mason University, Fairfax, Virginia. He worked as a Senior Economic Policy Advisor, President's Council on Environmental Quality, Washington DC, Senior Adviser for Environmental Economics, Bureau of International Organization Affairs, Washington, DC. He was Trent Fellow in the Department of Economics and Social Science at Nottingham Trent University. Between 1998 - 1999 he was director of the Law and Economics Center, George Mason University School of Law, Arlington, Virginia.

¹ Data about authors are mostly taken from the book *Government Failure. A Primer in Public Choice*, presented here.